Zacks Small-Cap Research

March 31, 2011
Ken Nagy, CFA

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inTEST Corporation (INTT-NASDAQ)

INTT: Zacks Company Report - OUTPERFORM

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	07/27/2010
Current Price (03/30/11)	$3.70
Target Price	**$7.00**

OUTLOOK

inTEST Corporation is a designer, manufacturer and marketer of mechanical, thermal and electrical products that are used by semiconductor manufacturers in conjunction with automatic test equipment, (ATE), in the testing of integrated circuits, (ICs). Beyond its blue chip portfolio of semiconductor manufacturers, the acquisition of Sigma has propelled the firm to diversify into non-semi thermal testing products. This has the effect of diversifying revenues and opens the company up to new markets. In the test equipment world change is good; be it the broad switch to mobile computing, the march to finer geometries, or the growth of electronic content in automobiles more chip content means more testing for inTEST.

SUMMARY DATA

52-Week High	**$4.54**
52-Week Low	**$1.58**
One-Year Return (%)	**134.18**
Beta	**1.23**
Average Daily Volume (sh)	**102,599**
Shares Outstanding (mil)	**10**
Market Capitalization ($mil)	**$38**
Short Interest Ratio (days)	**0.21**
Institutional Ownership (%)	**17**
Insider Ownership (%)	**22**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**-14.8**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**5.1**
P/E using 2011 Estimate	**4.7**
P/E using 2012 Estimate	**4.3**
Zacks Rank	**3**

Risk Level	**High**
Type of Stock	**Small-Blend**
Industry	**Elec Msrng Inst**
Zacks Rank in Industry	**5 of 7**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2008	11.3 A	11.5 A	9.2 A	6.8 A	38.8 A
2009	4.4 A	4.7 A	6.0 A	8.4 A	23.5 A
2010	9.5 A	15.3 A	11.3 A	10.1 A	46.2 A
2011	11.9 E	12.2 E	12.9 E	13.0 E	50.0 E

Earnings per Share
(EPS is operating earnings before non recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2008	-$0.14 A	-$0.14 A	-$0.20 A	-$0.29 A	-$0.77 A
2009	-$0.28 A	-$0.17 A	-$0.03 A	$0.04 A	-$0.44 A
2010	$0.11 A	$0.31 A	$0.17 A	$0.13 A	$0.72 A
2011	$0.15 E	$0.19 E	$0.22 E	$0.22 E	$0.78 E

Zacks Projected EPS Growth Rate - Next 5 Years % **15**

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KEY POINTS

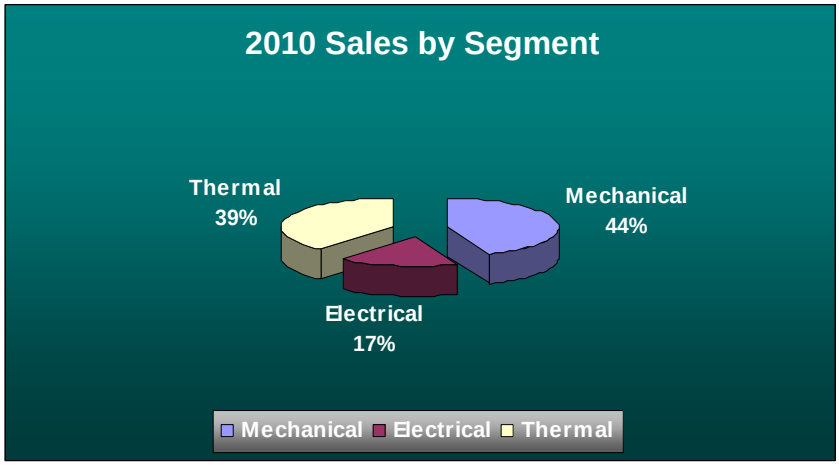
- With smaller more complex chips the testing environment is becoming more important and a bigger part of manufacturers costs.
- Semiconductor applications have grown exponentially as IC's have found their way into Mobile, Automotive, Medical, and industrial markets.
- inTEST has diversified its business into non-semiconductor markets.

OVERVIEW

Based in Mount Laurel New Jersey, inTEST is an independent designer, manufacturer and marketer of mechanical, thermal and electrical products that are used by semiconductor manufacturers in conjunction with automatic test equipment, or (ATE), in the testing of integrated circuits (ICs). The firm's high performance products are designed to enable semiconductor manufacturers to improve the efficiency of their IC test processes and, consequently, their profitability. INTT supplies test products worldwide to major semiconductor manufacturers and semiconductor test subcontractors directly and through leading ATE manufacturers. The firm's largest customers include Analog Devices, Inc., Cypress Semiconductor Corporation, Emerson Electric Co., Freescale Semiconductor, Inc., Hakuto Co. Ltd., LTXCredence Corporation, Northrop Grumman Corporation, Teradyne, Inc., Texas Instruments Incorporated, and W.L. Gore & Associates, Inc.

The testing of devices is a critical step during the semiconductor production process. Typically, semiconductor companies test each device at two different stages during the manufacturing process to ensure its functional and electrical performance prior to shipment to the device user. These companies use semiconductor testing equipment to first test a device after it has been fabricated, but before it has been packaged to eliminate non-functioning parts. Then, after the functioning devices are packaged, they are tested again to determine if they fully meet performance specifications. Testing is an important step in the manufacturing process because it allows devices to be fabricated at both maximum density and performance—a key to the competitiveness of semiconductor manufacturers.

In October of 2008 inTEST acquired Sigma Systems Corp., a manufacturer of thermal platforms, custom configured environmental chambers and other environmental test solutions for several industries including automotive, medical/pharmaceutical, electronic, aerospace/defense and ATE. Sigma allowed the firm to expand beyond the ATE market. The purchase price was approximately $3.5 million and was paid with $1.0 million in cash, 550,000 shares of common stock, and the issuance of non-negotiable promissory notes in an aggregate principal amount equal to $1.5 million



Foundry History

Historically semiconductor firms (also called integrated device manufacturers or IDMs) manufactured chips in their own fabs (chip fabrication plant). By the 1990's as chips grew smaller and more complex, it was a natural that 'fabless' outsourced manufacturing began to emerge. Semiconductor devices are broadly divided into three categories—analog, digital and radio frequency (RF). Analog semiconductors condition and regulate real world information such as light, temperature, speed, pressure, power and electrical currents. Digital logic semiconductors process information in only two states. Mixed-signal semiconductors combine both analog and digital technology into a single device. Typically, an analog sensor samples real world information, and then converts the input into an electronic analog signal, which is converted into a digital format for further digital processing. The analog and mixed-signal markets tend to be more varied and specialized, with customized products that have longer life cycles than the digital industry segment. There is an ongoing drive to decrease the number of discrete devices, lessen power requirements and shrink the size of the existing devices, which correspondingly increase performance and reliability. Consequently, a greater amount of functionality is being consolidated into increasingly smaller devices.

IC Test Process

Semiconductor manufacturers typically produce ICs in multiples of several hundred on a silicon wafer which is later separated or "diced" into individual ICs. Extended leads are then attached to the individual ICs, for later connection to other electrical components. In most cases, the ICs are then encapsulated in a plastic, ceramic or other protective housing. These process steps are called "packaging."

Wafers are tested before being diced and packaged, to ensure that only properly functioning ICs are packaged. This testing step has several names, including "front-end test," "wafer test," "wafer probe" or "wafer sort." In front-end test, an electronic handling device known as a wafer prober automatically positions the wafer under a probe card which is electronically connected to a "test head," which connects electrically to a test system. During front-end testing there is a growing trend of thermally conditioning the wafer during test, especially in the memory and automotive markets. Once the good ICs have been identified, they are packaged.

The packaged ICs also require testing, called "back-end test" or "final test," to determine if they meet design and performance specifications. Packaged ICs are tested after loading into another type of electronic handling device called a "package handler" or "handler," which then transfers the packaged ICs into a test socket which is attached to the test head. These handlers may be temperature controlled

for testing.
Testers range in price from approximately $100,000 to over $3.0 million each, depending primarily on the complexity of the IC to be tested and the number of test heads (typically one or two) with which each tester is configured. Probers and handlers range in price from approximately $50,000 to $500,000. A typical test floor of a large semiconductor manufacturer may have 100 test heads and 100 probers or 250 handlers supplied by various vendors for use at any one time.

Test head manipulators, also referred to as positioners, facilitate the movement of the test head to the electronic device handler. Docking hardware mechanically connects the test head to the wafer prober or handler. Tester interface products provide the electrical connection between the test head and the wafer or packaged IC. Traditionally, temperature management products are used in back-end test to allow a manufacturer to test packaged ICs under the extreme temperature conditions in which the IC may be required to operate. However, the firm feels that temperature-controlled testing will be an increasingly important part of front-end wafer testing as more parameters that are traditionally tested for in back end-test are moved to front-end test.

As complexity increases so does the need for testing.
Historically, increases in unit production resulted primarily from the growth of the personal computer and growth of the telecommunications industry. It is our opinion that future unit production growth will be augmented by consumer electronics, the mobile internet, broadband network access, the increased use of digital signal processing (DSP) devices, and automotive and power management applications. These increases in unit production, in turn lead to a corresponding increase in the need for test equipment.

Designers and manufacturers of a variety of electronic and industrial products, such as cell phones, telecom and datacom systems, Internet access devices, computers, transportation and consumer electronics, require increasingly complex ICs to provide improved end-product performance demanded by their customers. Semiconductor manufacturers generally compete based on product performance and price. Testing costs represent a significant portion of the total cost of manufacturing ICs. Semiconductor manufacturers remain under pressure to maximize production yields and reduce testing costs. At the same time, the growing complexity of ICs has increased the difficulty of maximizing test yields. In order to address these market trends, semiconductor manufacturers strive for more effective utilization of ATE, smaller test areas and increased wafer level testing. Two major areas of semiconductor content growth over the last 10 years are mobile computing and automotive.

Automotive
Automobiles today resemble “computers on wheels” because of the increasing number of digital systems under the hood and inside the passenger cabin. With each model year, vehicle manufacturers offer more sophisticated electronic systems addressing vehicle safety, telematics, and infotainment. The costs associated with these sophisticated systems are also rising. Automotive electronics, which just a few years ago accounted for 22 percent of a vehicle's cost, have increased to 40 percent.

Semiconductor content in a variety of automotive subsystems will show varying rates of growth over the next five years, according to market analyst Gartner Inc., with content for safety systems showing a compound annual growth rate of 14.1 percent over the five years 2009 to 2014.

The semiconductor content of safety systems will almost double, from $2.2 billion in 2009 to $4.3 billion in 2014, driven by the implementation of intelligent mirrors with rearview cameras, peripheral sensors, lane change warning systems and driver alertness detectors.

Driver information systems — already producing more than $3 billion in revenue— will show little additional growth with a 1.1 percent CAGR. Driver information systems are dominated by portable navigation systems – satnavs – but these will be partially cannibalized by GPS-based navigational aids for cell phones.

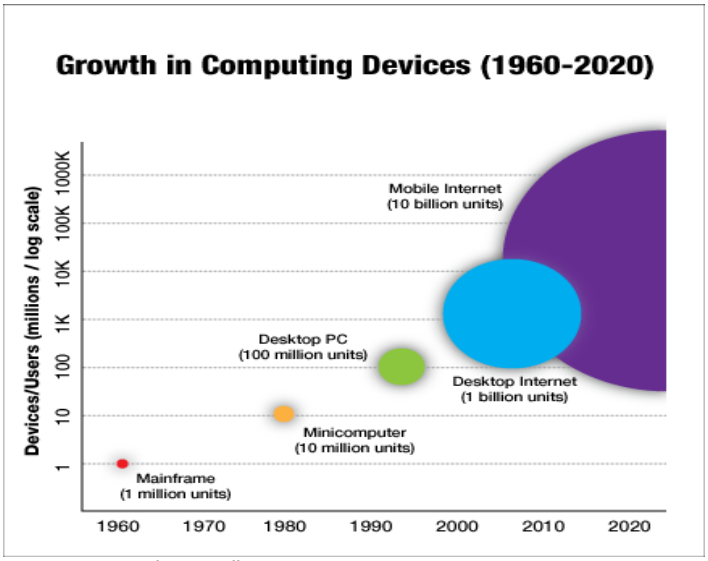
Meanwhile semiconductors for multimedia entertainment systems, as a separate category, will show growth of 7.2 percent CAGR.

Automotive microcontrollers are expected to show 10 percent growth while ASICs and ASSPs will show a 16.8 percent CAGR in safety systems, but only an 8.4 percent CAGR in automotive security systems. The fastest growth rate is expected to come in semiconductor sensors, with a growth of 14.0 percent.

According to Semicast, the market volume for automotive semiconductors will almost double during the timeframe between 2010 and 2017: From $20 billion to $39 billion on a global basis. This translates into an average growth rate of almost 20 percent.

Mobile computing

The boom in usage of mobile broadband and mobile computing applications will continue for the foreseeable future, according to the results of Cisco's Visual Networking Index (VNI) Mobile Forecast for 2008-2013. The survey aimed to discover key findings on a variety of Internet Protocol (IP) networking trends; and Cisco predicts that global mobile data traffic will increase 66-fold between 2008 and 2013, with a compound annual growth rate (CAGR) of 131% over that same period. Cisco believes that these projections reflect a transformation in the fourth-generation, or 4G, mobile Internet that will enable consumers to access an increased range of mobile broadband services, including applications such as mobile video as used in teleconferencing applications. The VNI Mobile Forecast also calculated that global mobile data traffic reached one Exabyte per month in half the time of fixed data traffic and will exceed two Exabyte per month by 2013. Asia-Pacific will account for one-third of all mobile data traffic by 2013.The evolving 4G mobile Internet transformation is further diversifying how people access and experience the Internet and is causing an undeniable surge in bandwidth growth. The projected increase in mobile rich media points to the inevitable transition to 4G. This will shift the industry's focus toward all-IP networks.



*Source-Minneapolis news

Semiconductor Outlook

According to the SEMI World Fab Forecast report, spending on worldwide fab projects, including construction, facilities, and equipping, could grow by 22 percent over 2010 levels with fab equipment spending (new and used) to grow by 28 percent over 2010 levels. This latest projection is based on analyses of recently announced increases in capital spending plans, mainly by foundries and memory companies. Total spending on fab projects could approach $47.2 billion this year, above the estimated $38.6 billion spent in 2010. 2011 spending will finally exceed the peak year's 2007 fab spending of $46.4 billion.

Table 1
Worldwide Semiconductor Capital Equipment Spending Forecast, 2009-2014 (Millions of Dollars)

	2009	2010	2011	2012	2013	2014
Semiconductor Capital Spending ($M)	25,876.3	54,050.9	52,017.2	58,326.9	65,565.0	60,712.9
Growth (%)	-41.2	108.9	-3.8	12.1	12.4	-7.4
Capital Equipment ($M)	16,606.1	38,385.1	38,008.1	42,592.4	47,697.2	42,798.9
Growth (%)	-45.8	131.2	-1.0	12.1	12.0	-10.3
Wafer Fab Equipment ($M)	12,747.7	29,698.4	28,689.8	31,446.8	35,885.1	33,258.7
Growth (%)	-47.4	133.0	-3.4	9.6	14.1	-7.3
Packaging and Assembly Equipment ($M)	2,708.5	5,921.3	6,333.4	7,484.6	7,874.6	6,431.2
Growth (%)	-32.3	118.6	7.0	18.2	5.2	-18.3
Automated Test Equipment ($M)	1,149.8	2,765.4	2,984.9	3,661.0	3,937.5	3,109.0
Growth (%)	-53.0	140.5	7.9	22.7	7.6	-21.0
Other Spending ($M)	9,270.2	15,665.8	14,009.0	15,734.5	17,867.7	17,914.0
Growth (%)	-30.7	69.0	-10.6	12.3	13.6	0.3

Source: Gartner (December 2010)

In 2010, 34 new volume fabs began construction, most of them for LED fabs. In 2011, only seven facilities have a high probability of being realized. Four more are likely to start in 2012. The largest segment for new fabs is the LED industry, and the SEMI World Fab report lists five new LED fab projects are likely to begin construction in 2011.

Market research firm Gartner cut its forecast for the 2011 semiconductor capital equipment market, saying it now expects fab tool revenue to decline 1 percent next year. In September the growth was expected to be 4.9%. Automated test equipment (ATE) spending had a very impressive 2010 as the market reached $2.8 billion in 2010, up 140.5 percent from 2009. While Gartner still sees high single digit growth, the first half of the year could be choppy. Expectations for 2011 are driven heavily by the transition to DDR3 memory test processes.

Finally, after analyzing the electronics supply chain, iSuppli expects the chip business to experience a soft landing in 2011 and not to suffer the kind of dramatic downturn seen in 2009. Global semiconductor revenue in 2011 will rise by 5.1 percent, iSuppli predicts. Sequential quarterly growth in 2011 is projected to follow a more normal seasonal pattern compared to 2010, with declining revenue in the first quarter followed by improving sales that will reach a peak in the third quarter. The long-term growth expectation is for average annual growth of slightly more than 4 percent between 2010 and 2014.

In US$ Million	2007	2008	2009	2010	2011 F	2012 F
Fab construction projects	**$8,282**	**$4,412**	**$1,947**	**$5,334**	**$4,637**	**$4,208**
Change %	10%	-46	-57	174%	-13%	-9%
Fab equipment spending (new&used)	**$38,111**	**$25,942**	**$14,311**	**$33,308**	**$42,577**	**$40,877**
Change %	13%	-32%	-45%	133%	28%	-4%
Total Fab spending	**$46,393**	**$30,308**	**$16,201**	**$38,644**	**$47,214**	**$45,085**
Change %	21%	-35%	-47%	139%	22%	-5%

***source SEMI**

What Concerns Us

While the semiconductor industry does not appear headed for the boom bust scenarios of the past, we remain concerned about the worldwide consumer. 2004 marked the first year that more semiconductor end market purchases came from consumer rather than corporate IT departments. We feel issues such as high debt levels across several countries, high oil prices, and stubborn unemployment levels could lead to a muted economic recovery. Spiking oil prices tend to have a double whammy effect on consumer spending since transportation costs as well as food rise quickly. Offsetting our pessimism on this outlook is the fact that many of the end market products are priced under $1,000.00.

Looking in on Major Customers

ATE Manufacturers

Teradyne: On an annual basis, sales doubled from last year ($819 million to $1.6 billion in 2010). Full year non-GAAP EPS totaled $2.20 versus a loss of $0.27 in 2009. The firm set new records in units shipped, ramp rate and annual share gain. Fourth quarter bookings of $355 million were up 1% from Q3. Sales for the first quarter of 2011 are expected to be between $350 million and $375 million, from $322 million in Q4.

LTX-Credence Corporation: Expect revenue to be in the range of $57 million to $61 million, from $52.5 million. Firm reports gaining momentum in target markets based on recent competitive wins, and expects this to continue to build over the next six to 12 months, as these new customers began ramping in volume production.

Semiconductor Manufacturers

Analog Devices, Inc: Revenues in the first quarter of $729 million, which were up 21% year-over-year and down about 5% sequentially (but within guidance). ADI reported order trends during the quarter were very typical of what is generally experienced in the first fiscal quarter. There was weakness in late November and December, consistent with the holiday-related shutdowns of its customers and also, some inventory reductions, which was followed by a strong January. Management gave positive guidance. Based on the stabilization in orders in the first quarter and positive feedback across its customer base, ADI is planning for revenue growth to resume in the second quarter. Specifically, for second quarter revenue to be in the range of $730 million to $760.

Cypress Semiconductor Corporation: From a backlog and order pattern perspective, expedites, pushouts, cancellations, management reported nothing noteworthy. They were all normal levels. Overall, lead times remained at or below six weeks and the firm reported very steep ordering patterns. Other issues were impacting outlook but look for an overall bump of 2-5% sequentially.

Freescale Semiconductor, Inc.: Spun off from Motorola Inc in 2004, was bought by a group of private-equity firms led by Blackstone Group in 2006. Information can be difficult to find, but did report record design wins. Net sales for the fourth quarter of 2010 were $1.18 billion, compared to $1.15 billion in the third quarter of 2010 and $951 million in the fourth quarter last year.

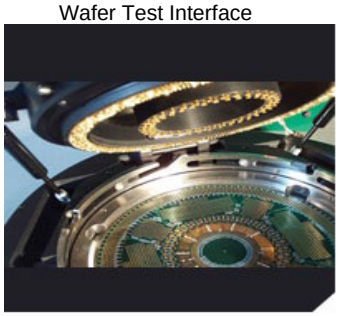
Texas Instruments Inc.: Believe the slowdown that started in the summer of 2010 is mostly complete. Further management felt the firm didn't just ride the rising tide of a growing semiconductor market, but also gained significant market share overall, as well as in each of the core businesses.

Other

Emerson Electric Co.: First quarter sales were up 15% to $5.5 billion with increases in all segments. For fiscal 2011, EMR projects net sales up 14% to 17%.

Electrical Products (17% of 2010 Total Sales)
The firm uses a unique strategy in the Electrical Products unit in that it designs standard and modular interface products to address most possible tester/prober combinations. INTT employs a custom design service that will allow any of its customers to use any tester, prober or handler combination with any type of device, such as analog, digital, mixed signal and radio frequency. This has led to an estimated market share of 15%. This estimate is management's best guess since several of the competing firms are private.

Wafer Test Interface



The firm's tester interfaces can be used in high speed, high frequency, digital or mixed signal testers used in testing more complex ICs. Tester interface products enable the tester to provide more reliable yield data, which reduce IC production costs.

Tester Interfaces are designed to provide flexibility and scalability through the use of replaceable signal modules which can be easily changed on the test floor as inTEST's customers testing requirements change.

These products range in price from approximately $1,000 to $60,000.

Trends
Electrical products bookings came in at $1.5 million for the fourth quarter versus third quarter 2010 bookings of $1.8 million. The firm has witnessed a continuation of the downward business trend from last quarter due in part to digestion. Orders for these products are inherently choppy due to the significant tester manufacture OEM level of sales; tester manufacturers tend to order in large quantities based on

their forecast so that tester shipments are unimpeded. At this time, the firm is seeing the tester manufacturers pulling their reins in terms of ordering to forecast as they have seen a slight downturn in order rates. During the 3rd quarter call the firm acknowledged experiencing some push-outs; and noted on the 4th quarter call that for the most part, those push-outs have turned into revenue.

Mechanical Products (44% of 2010 Total Sales)
The firm offers four lines of manipulator products as well as docking products. The manipulator has an estimated 20% market share while the docking products enjoy an estimated 40% share. Estimates of market share are tough to come by as many market participants are private.

The four lines of manipulator products are the in2, the M Series, the Aero Series and the Cobal Series. These free-standing universal manipulators can hold a variety of test heads and enable an operator to reposition a test head for alternate use with any one of several probers or handlers on a test floor. Certain members of the Aero family are also available as a lower-cost solution for dedicated prober-only or handler-only test cell applications. Prices range from $10,000 to $80,000.

Product	Industry	Use	Price
M400 & M500	Semiconductor	Compact and designed to handle test heads less than 550 pounds	$12,000 to $30,000
in2/ Cobal Series	Semiconductor	Balanced floating head design, Over 3000 pounds	$12,000 to $80,000
Aero 450H and 150P Manipulators	Semiconductor	Designed to handle test heads less than 1500 pounds	$10,000 to $30,000
Docking Hardware	Semiconductor	Ensures repeatable and precise alignment with test head and assembly	$2,000 to $25,000

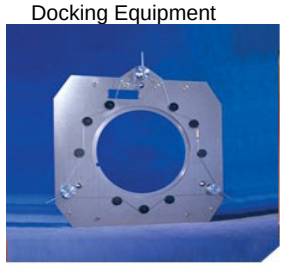
INTT's docking hardware products protect the delicate interface contacts and ensure proper repeatable and precise alignment between the test head's interface board and the prober's probing assembly or the handler's test socket as they are brought together, or "docked." A simple cam action docks and locks the test head to the prober or handler, thus eliminating motion of the test head relative to the prober or handler. This minimizes deterioration of the interface boards, test sockets and probing assemblies which is caused by constant vibration during testing.

Test Head Manipulator



The firm's docking hardware products are used primarily with floating-head universal manipulators when maximum mobility and inter-changeability of handlers and probers between test heads is required. By using these docking hardware products, semiconductor manufacturers can achieve cost savings through improved ATE utilization, improved accuracy and integrity of test results, and reduced repairs and replacements of expensive ATE interface products. Docking hardware products range in price from approximately $2,000 to $25,000.

Docking Equipment



Trends

Bookings in the mechanical products division were $4.9 million compared with the third quarter 2010 bookings of $3.7 million. The quarterly increase was driven primarily by end users who are benefiting from their robust business in consumer electronics, such as touch screens and flash memory; both of which are used in significant quantities in tablet computers and smartphones.

Thermal Products (39% of 2010 Total Sales)

INTT's Thermal Products are sold mainly to the environmental test market which encompasses a wide variety of industries including aerospace, automotive, communications, consumer electronics, defense, medical and semiconductor industries. The firm's thermal products allow a manufacturer to test semiconductor wafers and ICs, electronic components and assemblies, mechanical assemblies and electromechanical assemblies.

Thermal Test System



The firm's ThermoChuck precision vacuum platform assemblies, used primarily in the semiconductor industry, quickly change and stabilize the temperature of semiconductor wafers accurately and uniformly during testing without removing the wafer from its testing environment. Such temperatures can range from as low as -65 degrees Celsius to as high as +400 degrees Celsius. ThermoChuck technology is incorporated into wafer prober equipment for laboratory analysis and for in-line production testing of semiconductor wafers. Products in this area range in price from approximately $16,000 to $90,000.

ThermoStream products are used in the semiconductor industry as a stand-alone temperature management tool, or in a variety of electronic test applications as part of MobileTemp systems. ThermoStream products provide a source of heated and cooled air which can be directed over the component or device under test. These systems are capable of controlling temperatures to within +/- 0.1 degree Celsius over a range of -90 degrees Celsius to as high as +225 degrees Celsius within 1.0 degree Celsius of accuracy. As a stand-alone tool, ThermoStreams provide a temperature-controlled air stream to rapidly change and stabilize the temperature of packaged ICs and other devices.

MobileTemp Series combines ThermoStream products with its family of exclusive, high-speed

ThermoChambers to offer thermal test systems with fast, uniform temperature control in a compact package enabling temperature testing at the test location. MobileTemp Systems are designed specifically for small thermal-mass applications beyond the semiconductor market and have found application in the automotive, electronic, fiber optic, medical and oil field service industries testing such things as electronic sub-assemblies, sensor assemblies, and printed circuit boards.

Traditionally, customers used ThermoStream products primarily in engineering, quality assurance and small-run manufacturing environments. However, increasingly, customers use ThermoStream products in longer-run production applications. ThermoStream and MobileTemp products range in price from approximately $6,000 to $50,000.

Product	Industry	Use	Price
ThermoChuck	Semiconductor	Change and Stabilize temperature of wafers without removing	$16,000 to $90,000
ThermoStream	Semiconductor	Stand-alone temperature management tool	
MobileTemp	Semi/ Auto, Medical, Oil Service Etc	Combines ThermoStream and ThermoChambers to offer quick testing	$6,000 to $50,000
Thermal & Humidity Chambers	Virtually Any Market	Temperature Control in Lab or production Environments	$10,000 to $60,000
Thermal Platforms	Virtually Any market	Temperature control in a flat environment	$6,500 to $45,000

Trends

Thermal products division fourth quarter bookings were $5.3 million, compared with $4.3 million for the third quarter of 2010. The quarterly increase was broadly driven by all of the products. Each of the product lines experienced at least a 10% increase, with ThermoChucks, the smallest bookings contributor, actually showing more than a 200% increase in bookings.

Non-Semiconductor

On October 6, 2008, inTEST acquired Sigma, a manufacturer of thermal platforms, custom configured environmental chambers and other environmental test solutions for a variety of industries including automotive, medical/pharmaceutical, electronic, aerospace/defense and ATE. The purchase price was approximately $3.5 million and was paid with $1.0 million in cash, 550,000 shares of common stock, and the issuance of non-negotiable promissory notes in an aggregate principal amount equal to $1.5 million. In addition, during the closing of the transaction the firm repaid $303,000 of debt on the books of Sigma and incurred transaction costs of $226,000

The acquisition of Sigma Systems further solidified INTT's move into non-semiconductor business. This opened the firm up to non-semi areas such as Military and Aerospace, Industrial, and telecommunications markets. INTT is benefiting from manufacturers' requirements to verify that their products operate at set temperatures. Non-semi remains a way to mitigate the unforeseen changes in the semiconductor capital equipment cycle.

Management noted that in order to provide a more focused thermal solution for its customers, two of the Company's Sharon, MA-based subsidiaries, Temptronic and Sigma Systems, began operating under the umbrella trade name, inTEST Thermal Solutions Corp., further broadening the marketing range and engineering capabilities of the two separate entities.

The Thermal division product line addresses a number of growth markets, including high-speed networking and the use of fiber optic components and devices for 4G and 10G communications, broadband TV satellites and military applications. On the chamber sales side, from the Sigma product line, the firm is aggressively moving forward with training of its rep organizations and believes sales of this product line will grow significantly as it introduces them into Europe and Asia.

End Market	5 year CAGR
Consumer	5-7%
Computer	6-8%
Communication	5-8%
Industrial	10-12%
Automotive	11-13%
Medical	12-15%
Zacks Estimates	

INDUSTRY OUTLOOK

We believe that the semiconductor industry is a positive story in 2011. According to the Semiconductor Industry Association (SIA), the integration of semiconductors has increased across all verticals including consumer, automotive, computer, industrial, communications and government applications where the industry saw a 32 percent year-over-year growth in 2010. Specifically, semiconductor sales to both the industrial and automotive sectors saw significant year-over-year growth which increased by 50 percent and 44 percent respectively in 2010. The integration of energy efficient tools and increased automation in industrial applications can account for some of the growth in this sector's use of semiconductors. In the automotive sector, increased demand for semiconductor-enabled technologies can be attributed to emerging hybrid and electric vehicles, entertainment applications, engine controls and navigation systems.

China and India, two key emerging markets, are also driving demand. In addition to purchasing consumer items such as handsets and computers, both regions are continuing to invest in wired and wireless infrastructure. These investments in infrastructure create demand for a broad range of semiconductor products.

We also believe there has been a fundamental shift in the semiconductor industry from Corporate IT to Consumer Demand. The tipping point was in 2004, when more than 50% of the $213 billion in semiconductors sold in 2004 went into products purchased by consumers, rather than corporate IT departments. This proportion will continue to grow in the years ahead, as consumers all over the world are captivated by the richness and portability of digital media. Advances in computing, digital media processing and wireless technology are enabling the industry to create lifestyle-changing devices and gadgets that could only be imagined a few years ago. The changing nature of customers will affect every aspect of the business, from product design to marketing to demand forecasting.

INDUSTRY POSITION

inTEST competitors include independent manufacturers, ATE manufacturers and semiconductor manufacturers' in house ATE interface groups. In house groups are becoming less competitive, due to cost and complexity. The firm competes on the basis of price, functionality, timely product delivery, and reliability.

Product Group	Competitors
Manipulator Products	Esmo AG, Reid Ashman Manufacturing, Advantest Corporation
Docking Hardware	Esmo AG, Reid Ashman Manufacturing, Knight Automation, Teradyne (also a customer)
Thermostream	Thermonics, FTS Systems
ThermoChuck	ERS Electronik GmbH, Advances Temperature Systems GmbH, Espec Corp
Thermal Platforms	Environmental Stress Systems
Tester Interface	Esmo AG, Reid Ashman Manufacturing, Integrated Test Corporation
Environmental Chambers	Thermotron Industries, Cincinnati Sub Zero, Espec Corp

RECENT NEWS

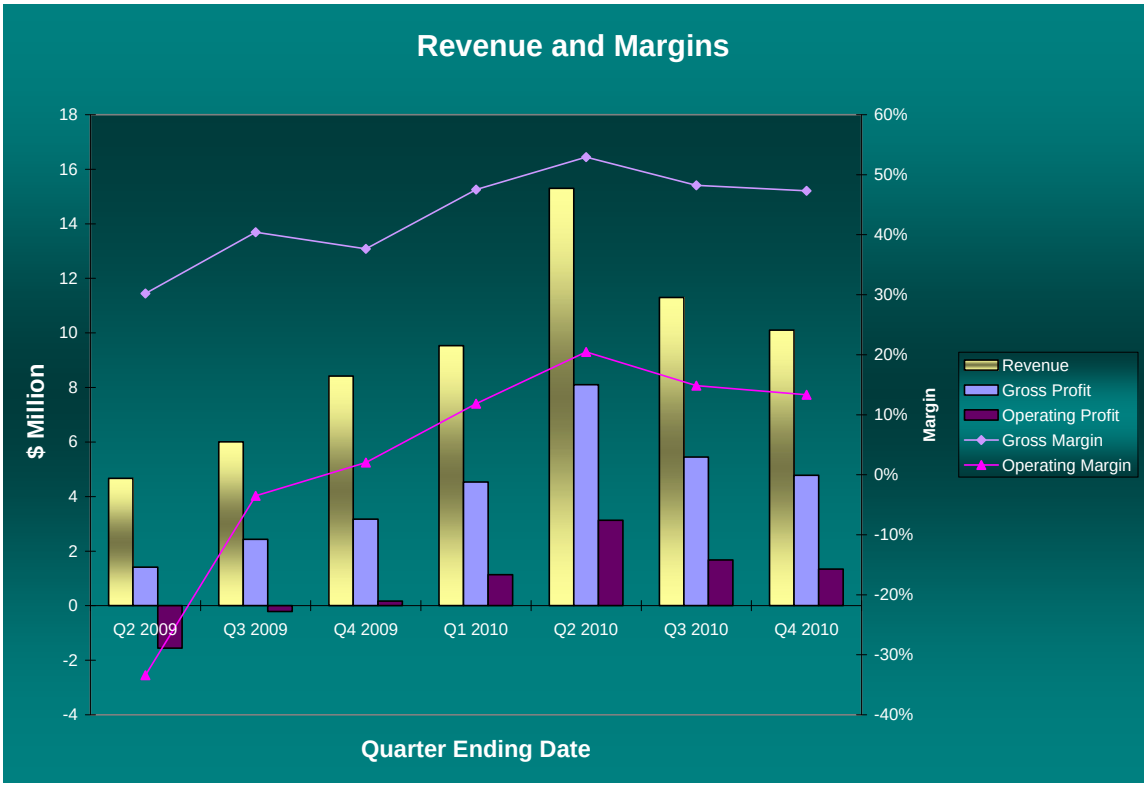
On March 2nd, 2011 INTT announced results for the fourth quarter of fiscal year 2010 ending December 2010. Revenue for the period was $10.11 million, down 10.6% sequentially from $11.3 million and up 20.0% year over year. With regard to full year results, 2010 net revenues were $46.2 million, an increase of 97% over 2009 net revenues of $23.5 million.

Net income of $1.3 million, or $0.13 per diluted share, increased over fourth quarter 2009 net income of $142,000, or $0.01 per diluted share, and decreased compared with third quarter 2010 net income of $1.7 million, or $0.17 per share. Looking at bookings, fourth quarter bookings of $11.7 million increased 19% compared with third quarter 2010 bookings of $9.8 million.

inTEST relocated the Company's corporate headquarters and Temptronic Corporation's operations to state-of-the-art facilities during the first quarter of 2011. The Company expects that reduced operating costs will result in savings of approximately $0.05 in annual earnings per share.

Cash and Equivalents at quarter end was $6.8 million, up $0.6 million from $6.2 million a quarter ago. The firm expects to build cash in 2011.

Management noted that it expects net revenue for the first quarter ended March 31, 2011 will be in the range of $11.0 to $12.0 million and that net income will be in the range of $0.11 to $0.15 per diluted share. The first quarter 2011 financial outlook reflects the expected effect of approximately $155,000 in costs related to the first quarter relocation of the Company's corporate headquarters as well as the operations of Temptronic Corporation.



VALUATION

inTEST remains well positioned to achieve solid revenue growth and operating leverage as complexity in electronics ratchets up and chip content increases. We see an even keeled semiconductor equipment market recovery and point to new fabs coming online as well as semiconductor content spread over more products. These factors may well help to mitigate the boom/bust scenarios seen in the past.

The firm has a diversified portfolio that includes non-semiconductor markets. This revenue should be a bit more inelastic and run on a different cyclical time frame than the semiconductor business. The firm's goal is to grow Non-Semi revenue to 50% of revenue. The potential for Non-Semi is enormous because it incorporates any market that uses thermal.

inTEST appears undervalued when looking at several metrics, among them P/E and Enterprise Multiple or Enterprise Value to EBITDA. INTT is pricing at a 5.1x P/E ratio (TTM) compared to the electronic industry average of 16.01x. The Firm's Enterprise multiple is 3.87x compared to 7.19x for the industry. We value the firm at 8.9x 2011 estimated EPS to arrive at our price of $7.00 per share.

	Mar-10	Jun-10	Sep-10	Dec-10
Revenue	29	39	45	46
Pretax Income	-1	4	6	7
Net Income	-1	4	6	7
Assets	15	17	19	20
Shareholders Equity	9	10	11	13
PRETAX MGN %	-3.60%	10.43%	13.59%	16.02%
X Tax Retent %	94.76%	101.32%	100.83%	98.00%
= PROFIT MGN %	-3.41%	10.57%	13.70%	15.70%
X Asset Util.	1.9	2.3	2.4	2.3
= ROA %	-6.30%	24.32%	32.62%	35.79%
X Leverage	1.7	1.7	1.6	1.5
= ROE %	-10.95%	41.70%	53.17%	54.32%

We analyzed the firms Return on Equity (ROE) by splitting it into its three components—net margin, asset turnover and equity multiplier. The TTM net margin has been increasing since the first quarter of 2010, and has been the main reason for the growth in ROE. This is result of stronger revenues as well as management's improved margin efforts, such as consolidating manufacturing, managing product mix and realizing certain operational efficiency. Previously, asset-growth was outpacing revenue growth, but the situation has changed over the past year. The equity multiplier has been declining over the last four quarters, as equity has been increasing faster than the increase in total assets. For firms with no or low debt the leverage multiplier tends to suffer, hence the firm's ROE should only be compared with like firms. The average for the industry is 10.4%.

RISKS

- While the overall world economy and the semiconductor markets have rebounded, the possibility of a double dip or a slow growth environment remains.
- The firm generates a large amount of revenue from a relatively small number of customers.
- A large portion of operations exist outside the United States. This brings up political risk and can make patent protection very difficult.

INSTITUTIONAL HOLDINGS

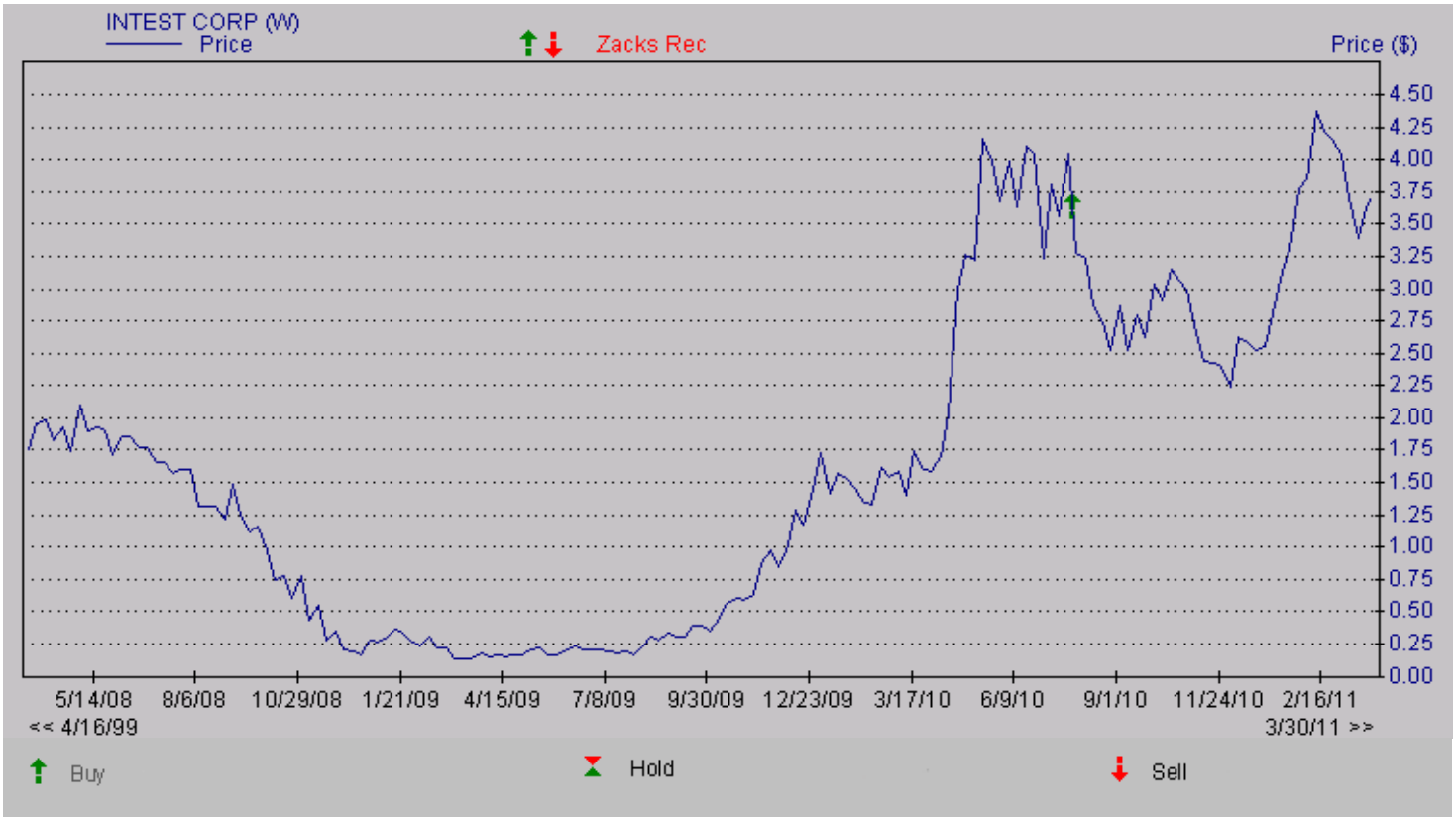
Institutional holders hold 11.5% shares outstanding. The top five institutional holders are Black Rock Institutional Trust Company, (with 4.79% of total shares outstanding) Renaissance Technologies (with 2.45%) Dimensional Fund Advisors Inc (1.78%), Invesco Power Shares Capital Management (0.75%) and Spark LP/DE (0.51%) Two of the top five holders were net sellers, while three were buyers.

PROJECTED INCOME STATEMENT

INCOME STATEMENT ($ Millions)	Dec-09 Q409	Mar-10 Q1 10	Jun-10 Q2 10	Sep-10 Q3 10	Dec-10 Q4 10	Dec-10 Q4 10 E	FY 2007	FY 2008	FY 2009	FY 2010 E	FY 2011 E	FY 2012 E
REVENUE												
Net Revenue	**8.42**	**9.53**	**15.30**	**11.31**	**10.11**	**11.90**	**48.7**	**38.8**	**23.5**	**46.2**	**50.0**	**55.0**
Sequential Growth		*13%*	*61%*	*-26%*	*-11%*	*18%*						
OPERATING EXPENSES												
Cost of Revenues	5.27	4.99	7.25	5.85	5.32	6.25	29.9	25.0	15.7	23.4	25.5	28.3
% of Revenue	*62.6%*	*52.4%*	*47.4%*	*51.8%*	*52.6%*	*52.5%*	*61.4%*	*64.4%*	*66.8%*	*50.6%*	*51.0%*	*51.5%*
Gross Profit -	**3.2**	**4.5**	**8.1**	**5.5**	**4.8**	**5.7**	**18.8**	**13.8**	**7.8**	**22.8**	**24.5**	**26.7**
Proforma Gross Margin	*37.4%*	*47.6%*	*52.6%*	*48.2%*	*47.4%*	*47.5%*	*38.6%*	*35.6%*	*33.2%*	*49.4%*	*49.0%*	*48.5%*
R&D + Engg	0.58	0.70	1.02	0.77	0.79	0.84	5.5	5.1	2.4	3.3	3.8	4.0
% of Revenue	*6.9%*	*7.3%*	*6.7%*	*6.8%*	*7.8%*	*7.1%*	*11.3%*	*13.0%*	*10.3%*	*7.1%*	*7.6%*	*7.3%*
SG&A	2.40	2.71	3.90	3.00	2.64	3.15	16.7	15.9	9.8	12.2	13	14
% of Revenue	*28.5%*	*28.4%*	*25.5%*	*26.5%*	*26.1%*	*26.5%*	*34.4%*	*41.1%*	*41.6%*	*26.5%*	*26.0%*	*25.5%*
GW Amort, Restructuring, other	-	-						-	-	-		
% of Revenue												
Total Operating Expenses	2.98	3.41	4.92	3.77	3.42	3.99	22.2	21.0	12.2	15.5	17	18
% of Revenue	*35.4%*	*35.8%*	*32.2%*	*33.3%*	*33.9%*	*33.5%*	*45.7%*	*54.1%*	*51.9%*	*33.6%*	*34%*	*33%*
Operating Income -	**0.17**	**1.13**	**3.13**	**1.7**	**1.4**	**1.7**	**-3.5**	**-7.2**	**-4.4**	**7.3**	**8**	**9**
Operating Margin	*2.0%*	*11.9%*	*20.5%*	*14.9%*	*13.5%*	*13.9%*	*-7%*	*-19%*	*-19%*	*16%*	*15%*	*16%*
NON-OPERATING ITEMS												
Non operating Income/Expense	-0.08	-0.02	-0.03	0.01	0.06	0.01	-3.0	-1.9	-0.5	0.0	0	0
% of Revenue	*-0.95%*	*-0.21%*	*-0.20%*	*0.07%*	*0.60%*	*0.07%*	*-6.12%*	*-4.80%*	*-2.17%*	*0.04%*	*0.24%*	*0.27%*
Tax Provision	0.0	0.0	0.0	0.0	0.1	0.2	0.050	0.270	-0.050	0.147	0.020	0.020
Effective Tax Rate												
Net Income -	**0.13**	**1.11**	**3.10**	**1.68**	**1.29**	**1.52**	**-6.49**	**-9.33**	**-4.83**	**7.18**	**7.8**	**8.8**
Net Income Margin	*1.5%*	*11.6%*	*20.3%*	*14.8%*	*12.8%*	*12.8%*	*-13.3%*	*-24.1%*	*-20.6%*	*15.5%*	*16%*	*16%*
Shares Outstanding												
EARNINGS PER SHARE												
EPS - Basic	$0.04	$0.11	$0.31	$0.17	$0.13	$0.15	$0.13	$0.15	-$0.42	$0.72	$0.78	$0.86
EPS - Diluted	$0.04	$0.11	$0.31	$0.17	$0.13	$0.15	$0.11	$0.14	-$0.42	$0.72	$0.78	$0.86

Ken Nagy, CFA Zacks Investment Research 3/23/2011

HISTORICAL ZACKS RECOMMENDATIONS



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